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Are executive pays in the US excessive?

Causes and consequences of high executive pay

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1. INTRODUCTION

Over the last decades executive pays have been rising non-stop all around the world. In this paper we will analyze the increase of these compensation packages in the United States, we will observe what the causes and consequences are, and we will try to give some solutions to these problems.

The aim of this research is to find and discuss the causes of this incredible increase in CEO pays and see how they affect society as a whole and companies. To justify this increase, we are going to analyze different variables such as net income of the companies, CEO pays, average salaries… In order to confirm that this rise is effectively happening and why.

2. WHY IS IT IMPORTANT?

Before we start analyzing the markets and salaries, we should know why it is important. First of all, these high executive salaries will accentuate the wage gap, and therefore, income inequality, increasing all kind of social malaises. Secondly, they have a negative impact on firms' performance, and it destroys economic value.

2.1. Impact on Society

First, I would like to talk about the impact of income inequality in society. There are many aspects affected by this wage gap, so we will look at them one by one to see what effect they have and then later on we will look at some solutions. Some of the consequences or reasons why this inequality is important are:

Unemployment is affected by this wage differentiation. As the salaries of high executives keep increasing, the wages of the rest of the society are stagnated. This means that many people that could be employed by the companies, are not, because the money that could be destined for investing in the company (increasing employees) or to increase salaries, is designated for the higher authority. (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015)

The gap between the rich and poor is at its highest for the last years. This is caused by the difference in salaries, as the name itself says. The people in the lower part of the middle class have kept the same wage, and the people that were at the top of the middle class have kept on growing. This increase in the wage gap causes the shrinking of middle class. (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015) (Fadulu, 2019)

Normally, the social class that supports a country is the middle class. Rich people in the economy is less than 5%, while the immense part of the economy belongs to the middle and lower class. This increase in the wage gap has affected and reduced the middle-class income growth. Which means as said before that they spend less money. (Kenworthy, 2013)

People from lower classes will only spend money if it is necessary, they will spend their money in food, housing, and necessary things. While people in the middle class will pay the same things as poorer people, but they will also spend more of their income in things like going out for dinner, going shopping, or going to the cinema in the weekends. This means that if people from the middle class don't earn enough money to spend later on, they will become lower class, or they will save up so much, that they won't spend their money on unnecessary things. As this is all linked, it will greatly affect the macroeconomic stability.

This would also increase crime in society. Many people think that they can earn more money without working as much. This can also be because many people that are in the low class, don't have money to pay their studies (which is also linked to lack of opportunities), and end up thinking that they can earn more money doing illegal things than working 40 hours to earn less than half that they would have doing things that they shouldn't. People also tend to end up committing crimes because of desperation. They see they work endless hours, to end up earning 1000USD. Obviously, not enough to maintain a family. (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015) (Hendel, Shapiro, & Willen, 2003)

As said before, this also causes a lack of opportunities at the bottom of society. Many of these people are unmotivated and already assume a way of living depending on the social status of their families and do not make an effort to study, train themselves and earn more money to get somewhere. People on the upper side of the society have money to invest on their education and have contacts everywhere, so their families keep going up and keep getting wealthier, whereas, the rest of the people keep getting poorer and have less opportunities than the rest.

As there is less middle class, the lower class increases, which directly affects poverty. Lower classes salaries have been maintained the same. While the economy has kept on growing, and inflation has been increasing too, lower classes salaries has been kept stable. This has accentuated poverty and has increased rich people's wealthiness. The increase in prices has increased poverty as people don't have enough money to spend in life basics and luxury things. (Dabla-Norris, Kochhar, Suphaphiphat, Ricka, & Tsounta, 2015)

People are working a lot of hours for very little money, which means that they are being exploited. Obviously, what a company wants is to have benefits, which means that they want to have as much revenue as possible and very little costs. What businesses do to achieve this is to hire less people (less salary costs), but they also take advantage of people with little or no formation and pay them miserable quantities. As they have little people hired, they have to work extra hours. This is why we say that this is exploitation

We can also observe that this wage gap inequality can destroy democracy. How? People with a lot of money can lobby and buy governments. This why they rig the system in their favor. Which means that what people vote, doesn't count, as they will do what big money wants them to do.

This can also provoke some social problems, as when things are not going like society wants, problems arise. People that are unhappy will set up protests, complain to the unions and go on strike. This causes cities to collapse, as production stops and governments have to control it. All of this is an additional expense for both, the state and the companies. (Stiglitz, 2012)

2.2. Impact on Firms

We have already seen how this income inequality affects the society as a whole, but we have to know how this affects firms in particular. We will see two main points:

2.2.1. Breach of fiduciary duty

First of all, if we want to understand this, we should know what the agency theory is. According to (Kopp, 2019), agency theory is: “a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executive as agents.”

What this tells us is that normally, owners are represented by directors and executives in a company. What shareholders do is delegate, and they put in money so that these directors and executives make the businesses profitable. If what they do is increase their incomes, they are not making it profitable. They are using the money that could be reinvested in the company, to benefit themselves. This means that people delegate to maximize profits and what they are obtaining is people taking benefits of their situation and not obtaining any results.

We know that shareholders invest in companies because they believe that they will get something in return. They believe that the company will work in the future and that they will obtain benefits from it. Sometimes shareholders also invest because they like the idea, the meaning behind the project, or the way that they work. Something all of these reasons have in common is that they always expect something in return. They will not invest just for fun.

So, when it comes to salaries in a company, we know that they are an expense and that they appear in the income statement. If the salaries of high executives are high, it means that the net income or benefits will be lower or even negative.

Sometimes, increasing salaries means that the workers are more motivated and so they will be more productive, meaning that they are investing in human capital and that you will get results for it.

Let's say we invest in 'Apple' because we know it is a big company, which is in growth, and we have analyzed and know we will obtain benefits for it. Now, imagine that when the year ends, we don't get benefits, or we don't get as many benefits as we thought. We are concerned so we decide to analyze the financial statements to see what happened and we conclude that the salaries are too high. If shareholders find out that this is because the salaries are higher than they should be, they will assume that they are not managing costs as they should. This might concern them, and they might decide to sell the shares and stop investing. This will decrease market value and at the end of the day what they have done is to harm the company and its shareholders.

We can say that some shareholders realized this was happening and that the executives were not maximizing the firm and in 2012 the concept of 'Shareholder Spring' emerged. This was the action of refusing to approve the compensation packages of CEOs (Marriage, 2017). A way to decide what CEOs pays should be is with 'Say on Pay', which is the process of voting how much should the executives be paid. This voting process is done by shareholders (Dictionary B. , s.f.). This is a way shareholder have to prevent excessive executive pay. (Corkery & Medarevic, 2013)

However, there is a point, where there is diminishing returns, instead of increasing benefits for the company and motivation for the worker increasing salaries, we obtain the opposite result. Executives feel that they have such a high salary that they are important and don't have to work as much. And obviously, benefits decrease because expenses are higher. (Ozkan, 2011)

2.2.2. Creation of economic value

Having these high salaries, means that the money that they are obtaining is not being reinvested in the company.

According to (Stout, 2012) from the 1980's on, the Myth of Shareholder Value destroyed much value within companies. To start with, returns of the listed companies (which decreased in 40%) decreased considerably. Companies' life fell from the average of 75 years to an average of 15 years. This has been because most of the time people in companies have tended to meet interests from some shareholders rather than others.

This is explained by the concept 'dynamite fishing' which means that they collect massive number of dividends one year, and they don't leave anything to collect or to invest for the year after. This is why many companies have to close down.

As the CEOs increase their salaries, the investment in marketing and I+D decrease, which can also be perceived by clients, which don't get as good services or products as they should be. As they don't have enough money to invest after paying the CEOs, many companies have to ask for credits, or they do buybacks to increase the value of their shares.

At the end of the day, companies with high CEO compensation packages will be affected, as they will have less money to reinvest, which will affect shareholders as well as clients.

3. METHODOLOGY

In this section we will be defining what an 'excessive' executive salary would be. We will be using some data from Fortune 500, which is a yearly list of the 500 largest US companies ranked by revenues of the respective fiscal year (Hayes, 2019). We will be using these companies because they are the largest in the US and therefore, the salaries of their CEO would be a good variable to use in our methodology. We are going to use some of the list of 2019 (Fortune500, 2019)

I have chosen these companies because they are positioned in the top 10 companies with most revenues in the US. This means that there are a lot of press articles and information about them. This would also mean that we can have access to their financial reports as they are obliged to publish them every year, but this didn't help me too much as they didn't publish what the CEO compensation packages were.

Even though, I chose these companies because of the easiness to find information about them. I have to say that it has been very difficult to find the CEO pays of the companies, as each source of information considered different variables when computing the CEO pay. At the end I chose to have an average of the pays within each firm to make it easier.

Table 1

COMPANIES	REVENUES ($M)	PROFITS ($M)	Nº OF EMPLOYEES
WALMART	$514.405	$6.670	2.200.000
EXXON MOBIL	$290.212	$20.840	71.000
APPLE	$265.595	$59.531	132.000
AMAZON.COM	$232.887	$10.073	647.500
MCKESSON	$208.357	$67	68.000
CVS HEALTH	$194.579	($594)	295.000
AT&T	$170.756	$19.370	268.220
AMERISOURCEBERGEN	$167.939	$1.658	20.500

Own elaboration, information from (Fortune500, 2019)

Table 2

COMPANIES	AVERAGE PAY/YEAR	AVG CEO PAY/YEAR 2018
WALMART	$22.000	$13.485.000
EXXON MOBIL	$104.766	$15.800.290
APPLE	$100.000	$24.221.000
AMAZON.COM	$28.466	$11.509.000
MCKESSON	$96.103	$5.779.000
CVS HEALTH	$41.725	$14.553.000
AT&T	$85.337	$17.684.000
AMERISOURCEBERGEN	$102.021	$5.929.000

Own elaboration with sources stated in the appendix.

According to (Florillo, 2019) USA's average pay is $48,672/year, if we compare this to the average of the CEO pay which is $13.620.036,25, we can get to the conclusion that CEO's compensation is 279,83 times higher than average person in the US. We have to have in mind that when we talk about pay or compensation this is a sum of the base salary, bonuses, stocks, other compensation…

What do we mean by 'excessive' pay? We are going to use different measures to establish what is excessive:

- The executive pays to average salary ratio. We are going to see by how much an executive earns compared to average worker of the same company.
- We are going to analyze the evolution of the benefits from 2008 to 2020 and the CEO pay in the same period of time. If we see that CEO compensation increases more than benefits (especially in recessions), this means that it goes against efficiency and shareholders.
- In some cases, we see that companies have to fire many people, whilst CEO compensation keeps increasing. This is counterproductive. They should decrease their compensation and keep people working in the company to increase productivity.

3.1. Ratio of average salary to executive compensation

We can see that if we compare the average executive pay with the average salary in these companies, we can see that all of them exceeds the pay in large quantities. The one with the lowest ratio is AmerisourceBergen which is still nearly 60 times more than the average salary of the same company.

I have calculated the average ratio of these companies and it is 260,57. Which means that the average CEO earns 260 times more than the average worker in the same company. I think this is something that should be regulated, because as we have seen before it can affect firms and the society in various negative ways.

COMPANIES	CEO-TO-AVG PAY RATIO
WALMART	612,95
EXXON MOBIL	150,82
APPLE	242,21
AMAZON.COM	404,31
MCKESSON	60,13
CVS HEALTH	348,78
AT&T	207,23
AMERISOURCEBERGEN	58,12

Own elaboration.

The fact that a CEO earns 260 times more than an average worker can lead to very important consequences that can be difficult to solve. If these average workers keep earning the same amount of money and their CEO are earning so much, their life quality will be slowly decreasing. As the inflation rates and the standard of living of the rest keep increasing, even though their salaries are the same, they are living in poorer conditions. This is why we would have to consider controlling the amount that executives get paid.

3.2. Comparison of Net Income and CEO pay (2008-2019)

If we observe the appendix, we can see that if we compare the Net Income and the executive pay of the different firms analyzed, we can say that there is no conclusion whether there is correlation or not. There are firms such as CVS Health that in 2018 has a negative net income, whereas the average executive pays increased. This doesn't make much sense, as what people tend to do when there are negative results is decrease costs.

If what companies do is increase their compensation when there is need for cash in the company, what they do is make it illiquid. Probably, many times, if they have negative net income they will have to stop investing in many things in the company, whilst they keep increasing CEO pay. This is counterproductive as they could spend and invest the money, they spend on executive packages to have better net income or reinvest in the company and make value.

After analyzing the relationship of net income and pay, we can say that there is no predominant conclusion. What we can say is that performance and CEO pay do not always go together. And that if CEO pay increases and net income decreases by a considerable amount, we should consider lowering the compensation packages and investing in things that might be beneficial for the firms.

Other analysis and sources of information such as (Ozkan, 2011) or (Holmstrom, 2004) would say that there is negative correlation between net income and CEO pay, in my case I have to say that we have no concluding evidence.

3.3. Comparison of number of employees and Average CEO pay (2008-2019)

We are going to use this measure because normally, if companies fire employees it is because they don’t have enough money to pay them or they don’t need them. So, if the employees of a firm are decreasing and the CEO pay is increasing, this is obviously not good. This means that the company is firing people because the CEO is increasing its pay. Instead of assigning the money to the employees and making the company grow they are using it to profit themselves.

The first thing we can assume from the companies when we look at the tables of the appendix is that they have been growing over the years in terms of size and net income. What we wanted to analyze is whether the number of employees decreased as the compensation increased.

We can see that during some of the years the number of employees has decreased as the compensation has increased. This should be something to observe, as normally, when firms fire people are because their company is not going as well as it should, or they don’t have enough cash to pay salaries. If they don’t have enough cash to pay salaries or they are not having as much income as before, they shouldn’t fire people, they should decrease CEO compensation so that the company can keep on working and that workers don’t seem affected in such a negative way.

If we observe **table 4**, that corresponds to firm EXXON Mobil, we can see that in 2017 the net income more dan doubled from the previous year, the CEO Pay increased in $3 Million and the employees decreased in around 1.500 employees. If they hadn’t invested to increase CEO compensation, they could have maintained their employees and even increasing their salaries.

We should also have in mind, that sometimes, they fire people because they really don’t need them or because they have invested in machinery, so they don’t need so many people in their installations. In any case, I emphasize that they could invest the money in increasing the volume of the company and in consequence they would have to increase the workforce, avoiding this way firing thousands of people.

This is another way of measuring how executive compensation is growing over the years and that motivates us to see what the reasons behind this considerable increase in executive pays are.

4. EXPLANATIONS FOR THE RISE IN CEO PAY

According to the *Managerial Power Hypothesis* (Frey & Kucher, 1999), executive compensation is often higher than it should be. If you compare it with what an economically efficient compensation contract should be, we would see a great gap. This also leads us to talk about performance. In many cases it is proven that when CEO pay increases, performance doesn't increase too. We are now going to discuss some of the explanations for the increase in executive pay over the last years.

4.1. Flaws in Corporate Governance and Compensation Committee

Before starting this section, we should define what Corporate Governance is, so we can understand how it can affect companies and the compensation packages for CEOs. According to (Chen, 2020) it is the way that a firm is controlled and managed. It is set by some rules and processes. It involves shareholders, executives, customers, suppliers… It also includes the control, performance and basically everything within a firm.

We could say that one of the principal causes of this increase in CEO compensation is the fact that the Compensation Committee determines the amounts of pay. We can observe different reasons for this.

We can observe that depending on the composition of the compensation committee we will have different outputs regarding CEO compensation. To start with we should know that normally the Board of Directors are the ones that employ these committees. When deciding who will make up you committee you can decide whether it is formed from outsiders or from people from your own company. We can say that when it is made up of insiders, the base salary or compensation is normally higher, and the equity incentives are lower. This is because CEOs prefer to have a stable income and that it doesn’t depend on their performance. (Conyon & He, 2004)

On the other side, *Board of directors* also influence when determining the compensation of CEOs. First of all, the size of the board of directors is something that determines the effectiveness when decision making. According to (Ozkan, 2004) as the size of the board of directors increases, there is less coordination and understanding between members and it affects compensation directly. Level of compensation pays are normally higher when the size is bigger.

According to (Chen, 2019), the board of directors’ structure oscillates between 3 and 31 members. Some say that the ideal number is 7. It is composed as said before by people that work within the company, and outsiders that don’t have anything to do with the company. The ideal situation would be that there would be more outsiders than insiders so that the compensation committee wouldn’t feel under pressure.

CEOs can influence in a great way the compensation committee. These in turn will reflect executives’ preferences rather than maximizing shareholder value. This will result in lower results at the end of the period. That is why the compensation committee should have at least some ownership, so they try to maximize profits rather than attend CEOs preferences. (Conyon & He, 2004)

If the Committee has a significant ownership, this means that probably the base salary is going to be smaller and the equity incentives higher. This is because as they are shareholders they want to maximize profits and wants the company to work as well as possible. This way CEOs will try harder to outperform and get better results at the end of the year. (Conyon & He, 2004)

If the committee or the people that comprise the committee are not very productive or are not very outstanding, they might feel that they have to compensate CEOs or just increase their salaries just so that they don't get fired. This makes compensation packages increase considerably. This has a direct relation of committee productivity and CEO compensation. (Conyon & He, 2004)

We can also say that the diversification of the committee is one of the important factors that affect the compensation packages. This is because if they are people with different backgrounds, there is less probability that they will have the same ideas between them. This makes it more difficult for the CEO to influence on them. This means that probably they CEO will have a higher base salary and more equity incentives if the board is diversified rather than if it was homogeneous. (Conyon & He, 2004)

According to (Boyle & Roberts, 2013) we can also say that when there is a presence of CEOs in the committee, they have higher salaries because they have more power over the people surrounding them. However, when there is no CEO in the committee, they have less bargaining power and they have lower compensation packages.

When the executives can influence on their own pay, they normally impose themselves a low base salary but, they have higher fewer observable forms of pay (these could be, annual bonuses, stock options, awards, pensions…). What does this mean? That they do this so that even though they have 'low salaries' they are still receiving large quantities of compensation. (Frydman & Jenter, 2010).

One of the important factors that determine the compensation of the CEOs and the increase over the years is, as we have seen, the composition of the Compensation Committees.

If we consider that CEOs have a lot of power and that corporate governance are weak in companies, we can assume that this can lead to a kind of fear to the CEOs. We are going to see how corporate governance affect compensation in executives. There are different variables that can affect it according to (Ozkan, 2004):

As we have seen, corporate governance has a direct relationship with CEO pay. Firms have to have this in mind when deciding how to control their companies and what rules to impose.

4.2 Preferred Shares

Another reason could be the possession of preferred shares. If we consider how (Ganti, 2020) defines preference shares, we would say that they are shares of the company, but their dividends are paid out before common shares are issued. They also have the benefit that if the company goes bankrupt, they are also paid before common shareholders. They normally have fixed dividends but their inconvenient (for the shareholder not for the company) is that they don’t have any voting rights.

Not everyone can obtain these types of shares. These are shares that give you a fixed income and are paid out to shareholders before common stock. These preference stocks are also known because they have no voting rights, but the people that possess them still have ownership of the companies.

The holders of these stocks are owners, so they have a percentage of the company. This means that there is less percentage of stocks to buy in the stock market. New people that buy stocks have the right to vote but less opportunity to have a majority of the shares. CEOs give out preferred stocks so that they have more power over the company. Normally when you give someone preferred shares, they support the CEO in their ideas, or they commit themselves to not go against the board. This way it is easier to impose their salaries and they have less probability that the shareholders oppose to the new ideas and decisions.

4.3. Stock Buybacks

When we talk about stock repurchase, we talk about companies buying back its own shares. They can buy their own shares from the market or from the shareholders its selves. It involves buying shares, so you are taking them out of the market and is very similar to paying dividends. As buying back shares increases their price and value, and executive's compensations are normally linked to the performance of the firm, many CEOs can be seen benefited by these buybacks (Reda, 2018).

When share price is below what it should be, the company buys back the stock at a low price, and makes the price go up. People see that the shares are going to increase in value, and they invest more in the company. As they are paying shareholders, these will be grateful for it, as they will have received cash in return for their shares that having such a low price, no-one was going to buy. This way the buyback will benefit the executives and the shareholders at the same time.

Another way that we can link the buyback of shares and the benefits of the executives is that this stock repurchase increases Earnings Per Share. As they take shares from the markets, this means that the dividends are divided between less shares than at the first place. Many executives have a base salary and then hold stocks so that their performance is linked to their compensation. This way they will have increased their pay as they will have received more cash for their stocks.

The company's financial ratios and its liquidity improve considerably. As the equity has been changed and the rest has been kept equal, ratios like Return on Equity or stock price will get better. The improvement of all these things in the company will be related directly to the performance of the CEO, which at the end will see its compensation increased too.

This process of buying back stock can have some negative consequences in the firm. To start with, shareholders might think that this repurchase is being done to benefit the executives and their pay which can end up in disputes. Another negative factor is that its assets will be damaged, as the company will have less cash after rebuying the shares. This manipulation of the balance sheet and the equity of the firm can help the executives to achieve their goals in not such a realistic way. Just buying shares instead of actually making decisions and waiting to see results. (Shilon, 2020)

According to (Reda, 2018)'s study Long Term Incentives occupies the majority of executive pays reaching to a 47.4% in S&P500. In 2016. It is nearly half of their compensation is linked to the performance of the firm and the results of their ratios. And as we have seen they are all really related to the buyback of shares.

4.4. Block shareholding and Institutional Ownership

Block shareholding consists of someone having large quantities of shares from the same company, this meaning that they have more voting right and therefore more power upon the company. They are normally investment banks and their objective is not to improve the performance of each of the companies they own shares of. Their principal objective is to increase the value of their stock portfolio. This means that they prefer scenarios with less competitiveness because if one of the companies they have invested in losses, they will lose a part of their investment too. Their proportion of stocks of the firms are very high, which means they have high voting rights, which consequently means that they have power upon compensation pays too (Antón & Gine, 2017).

As they have a lot of power over the firms what they do is increase the base salary of their CEOs. This is because they don't want competition between their own firms. What they do is agree on prices and agree on the decisions to make in each of the companies so that the competition is very low, and they don't see their incomes affected. (Antón & Gine, 2017)

Institutional investors are people that own more stock that individual investors. Which means that at the end of the day have more money and can invest more than the rest.

These people normally want liquidity. If the company that they are investing in is not working how it should be, instead of using their voting rights to make things work, they sell the shares. So, how does this affect CEO compensation? If institutional investors don't agree in what the compensation packages include, instead of changing their pay, or voting against the increase in compensation, they will sell their part of the company. This is how it can affect compensation.

According to (Clay, 2000): 'a 1% increase in institutional ownership yields a 6% increase in pay levels. This means that as institutional investors increase, CEO pay increases with it. (Clay, 2000) also states that it also affects the pay-performance sensitivity, increasing it considerably.

If we consider what (Ning, Hu, & Garza-Gomez, 2012) says about institutional investors, from the 1990's institutional investors and regulators decided that it was a good idea to compensate CEOs through Long Term Investments, which meant that their performance was linked to their pays. This way CEOs started increasing their compensation in large quantities. We can say that this is vicious cycle. As they earn more through compensation packages, they have more to invest and more to spend. At the end of the day they have compensation packages that increase year by year and they have returns from their own investments that they have paid with the money of their compensations. They become richer and richer every year.

We can say that block shareholding and institutional investors can affect considerably the executive pays in big companies. As they invest in many other companies, they are not going to be focusing on each specific point of each of the companies they own. This should be regulated in some way, or they should try and solve problems instead of just selling their part of the stock.

4.5. Peer benchmarking and Compensation Consultants

Peer benchmarking is another reason for this increase in the compensation of CEOs. What is peer benchmarking? It is the process of comparing companies within the same industry or the same region. It is done to see how to perform or how they are doing in comparison with other competitors or people in the industry (Kueller, 2014). Normally, benchmarking is used to see what the convenient CEO pay would be in an industry depending on supply and demand and performance. The problem is that this can lead to an increase in the compensation and not taking in consideration the performance part (Cremers & Grinstein, 2008).

Another problem of peer benchmarking is that companies don't want other companies to see that their CEO is paid below average. If they are paid below average, this means that its performance is below average too, so they have to be paid as much or even more than other companies, this increases heavily compensation year by year.

To understand peer benchmarking in depth it is essential for us to know how peer groups are selected and how it affects compensation packages. To start with, the compensation committee is the one that chooses a compensation consultant, that at the same time will choose the comparison group and provide the information of the rest of the firms. To choose the peer groups, normally, they choose companies in the same industry, companies similar in size, firms that are relatively similar in performance and that have more or less same in terms of capital.

The principal reason to do this is to know how the competitive market is doing and acting consequently. This way they know how to act in different situations and helps them make decisions.

Normally, the average size of the groups is of 14 firms. What compensation consultants do is analyze the market in terms of compensation of the rest of the companies and they calculate the median. What would be considered fair is that these consultants paid their CEOs the median of what other industries CEOs get paid, but this is not actually what happens. They tend to pay their CEOs at the 75th percentile of what other firms pay. The consequence of this is that year by year, executive pays increase around 17%.

The advantage for CEOs and compensation committees is that they can manipulate the criteria for choosing the rest of the firms. If they were to choose in the fair way, they would choose with the criteria said before (industry, firm size…) but companies tend to choose firms with higher CEO pays so that their pays increase each year.

We can say that CEO pay level is directly affected by compensation consultants and peer benchmarking, as they can increase their compensation packages considerably. As it is normal for firms to do this, they keep choosing firms that have higher pays than they have and increases their compensation. These same firms will be the objective of the other firms, which will cause a vicious cycle. (Bizjak, Lemmon, & Nguyen, 2006).

4.6. Lack of trade unions

We can also say that a cause that affects CEO pay is the lack of trade unions in the US. According to (Gomez & Tzioumis , 2006) trade unions can affect CEO pay directly and indirectly, affecting it in both ways negatively. It has been proven that if the CEO has a high pay it means that the firm is in financial wealth, which means that the rest of employees will try to have a higher salary. This makes CEOs more cautious when negotiating their pays.

If we consider what (Gomez & Tzioumis , 2006) say that it is *indirect channel* of trade unions in firms we can say that it is when they are actually present in the firm. They can negotiate within the firm or they can also communicate what they want on TV programs or press (which would affect firms negatively). They can also increase their importance in a firm if they are in the board of directors. What they want is 'fairness' in the workplace. What does this mean? Each person will consider as 'fair' very different things. Trade Unions consider fair that if CEO pays increase because of wealthiness of the firm, other workers should experience an increase in their salaries too. This is one of the ways that trade unions affect firms directly.

If we know talk about the *indirect channel* of trade unions, we talk about the consequences that they entail. Trade unions and financial results have a negative correlation, as the presence of trade unions in a firm increases, its financial results seem disadvantaged, which means that stock prices can also be seen harmed. As we have said throughout the paper, stocks are directly related with the CEO pay. This means that CEO pay, and the presence of trade unions don’t go along. As the presence of trade unions increases, the compensation packages, decrease.

(Gomez & Tzioumis , 2006) propose two ways of solving this problem with trade unions in firms: first of all, they propose to increase the stock options and the second proposal is to decrease or maintain stable CEOs Long-Term Incentives and increase base salary. This way companies with presence of trade unions will be more capable of attracting better executives, instead of losing them.

We know that from a century ago (Gunn, 2018) trade unions in the US has declined considerably. Which means that CEOs are more capable of imposing their own salaries and make decisions without the trade unions telling them what to do or complaining about the decisions that have been taken within the company.

As we have seen the presence of trade unions is negatively correlated to CEO compensations. This is why the lack of trade unions in the US has become one of the causes of the increase of the CEO pay over the last decades.

4.7. Laws supporting executives and shareholders

The last reason of increase in executive pay we are going to talk about is the presence of laws that support executives and shareholders. One of the laws that supports these two parts of the companies is the Delaware Corporate Law.

If we consider what (McGaughey, 2016) says, in 1959, the Delaware Law said that executives and directors could judge and decide how much and how the employees were going to be paid, which is very different from determining their own pays. In 1969, the law changed, and it allowed managers and directors setting up their on pay. Today the compensation committee is the one setting up compensation.

According to (McGaughey, 2016) the CEO pays of Fortune500 increased in 481% until 1990s. This is almost 5 times more in four decades. In the same amount of time the economy grew considerably, but they could observe that the salaries of average workers of the same companies were stagnated. This meant that people were working, maintaining the same salaries, and the rest of the executives and directors were increasing their standards of living in considerable ways.

This way we can see that laws in the US support the executives and the directors, helping them impose their own salaries and increasing it year by year.

5. HOW TO SOLVE THESE PROBLEMS?

In this section I am going to propose some solutions to try to avoid this great increase in executive pays in the US market. These ideas would be very ideal from my perspective but are very difficult to impose.

To start with a good idea to prevent this rise in CEO pay would be trying to choose better the compensation committee. As we said before, the executives can choose from hiring an internal committee or an external. In this case I would always choose to have an external one, as they are going to be more objective and they are not going to get carried away by other interests within the company and the executives. (Leblanc, 2013)

To avoid a large increase in the compensation of CEOs we could first, decrease the proportion of CEO's long-term incentives, as this is the part that is linked to stock options and to performance. I think that companies should establish a limit in the remuneration system so that diminishing returns don't happen. This way we could prevent the exponential rise in the gains of executives, and we would avoid the number of buyouts there are right now in the market to increase the market value and therefore, increase their salaries.

If we were to pursue this idea, I think there should be a limit when it comes to ownership of the companies. Avoiding this way, the block shareholders. Obviously, we know this cannot happen, but we could try and make things better if the people who have big proportions of companies, instead of selling their shares when things are going wrong, or if they sell the shares when the salaries are too high, they should try to solve problems instead of just selling their ownership.

Another way to prevent this, which is more realistic, is giving more say to outside shareholders rather than CEOs when it comes to CEO compensation. When I say more say I mean that if a CEO is a shareholder because he is being paid with stock, they should obtain company shares that have fewer voting rights (There are different types of shares, type A, type B… Each of them with different rights). Many would say that this is not a good way of working, but if executives are also shareholders, they can vote against lowering their compensation packages.

Another way of controlling this compensation peak in executives would be giving them a higher base salary and trying to avoid paying them with stocks, because this way we can prevent that they buy back stock or that they vote against different packages.

I would say that a good idea is to have trade unions in the companies, that could if not decrease salaries of CEOs, maintain them. Or they could at least try to increase other people's salaries so we can prevent social and firm problems in the long term. As said at the beginning of the paper, this income inequality can provoke many things like more criminals, poverty, lack of opportunities… with the presence of Trade Unions in the companies we will avoid these consequences of high CEO pays.

One of the things that increases salaries the most every year is the benchmarking methodology, which as said in the paper increases salaries in about 17% every year. If we change this methodology and focus on what the executives actually achieve every year or if they achieve their goals, compensation would be fairer. However, if the executives are the ones to impose their own goals, they can put themselves easy objectives so they can achieve them easily and have higher pays. This would be a problem.

Last but not least, I would try and restructure the compensation packages. If there are losses in the firm, or there is need of funds, executive's compensation should be lowered down. Their pays should depend more on their productivity and what they do in the firm rather than how the firm is going externally. If they want their salaries to increase now, they just have to buy back shares so that the market value increases. This is not the objective; the objective is that they get paid depending on the value creation and the value of the company.

These are some ideas on how to prevent this incredible increase of the executive compensation.

6. CONCLUSION

After doing an exhaustive analysis we can conclude several aspects. The *First* conclusion is that indeed, executive salaries have been increasing significantly over the years and that if things keep on working as they are now, they will keep increasing year by years.

Secondly, we can say that these amounts of compensation affect income inequality and in consequence affects the society as a whole and firms internally. These two variables are affected negatively over time and it could bring serious problems in society if we don't give solutions to them.

My *third* conclusion, which is linked to conclusion two, is that if we compare average worker and CEO pay, the second one is extremely high, being that many people would work years, to earn what a CEO earns in one year. Many of these people will work their whole life's and even this way, they will never obtain the amount of money a CEO will earn in a year or even a month.

Our *fourth* conclusion is that obviously CEOs should get paid more, as they have worked hard to get where they are, but I think we should establish a ratio of CEO pay to average salary. So that these workers can have a better way of living while compensating executives for their work. It would be very difficult to establish the correct ratio, because it depends on the amount of work that you take, the amount of people that you manage, and the responsibility. Although, this is difficult to establish, only by analyzing the ratios that we have obtained we can see that these quantities are excessive.

My *fifth* and last conclusion would be that, there are many causes that affect this unfair distribution of money in a company, and it is very difficult to solve this issue. If we could give justice to these people that earn so little and give CEOs what they actually deserve or merit, society and money would be better distributed, and the world would be a better and fairer place.

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8. APPENDIX

Table 1- Information about companies

COMPANIES	**REVENUES ($M)**	**PROFITS ($M)**	**Nº OF EMPLOYEES**
WALMART	$514.405	$6.670	2.200.000
EXXON MOBIL	$290.212	$20.840	71.000
APPLE	$265.595	$59.531	132.000
AMAZON.COM	$232.887	$10.073	647.500
MCKESSON	$208.357	$67	68.000
CVS HEALTH	$194.579	($594)	295.000
AT&T	$170.756	$19.370	268.220
AMERISOURCEBERGEN	$167.939	$1.658	20.500

Own elaboration, information from (Fortune500, 2019)

Table 2 – Average pays

COMPANIES	AVERAGE PAY/YEAR	AVG CEO PAY/YEAR 2018
WALMART	$22.000	$13.485.000
EXXON MOBIL	$104.766	$15.800.290
APPLE	$100.000	$24.221.000
AMAZON.COM	$28.466	$11.509.000
MCKESSON	$96.103	$5.779.000
CVS HEALTH	$41.725	$14.553.000
AT&T	$85.337	$17.684.000
AMERISOURCEBERGEN	$102.021	$5.929.000

Own elaboration, information from the following sources: (PayScale, 2020) (Salary.com, Salary.com, 2018) (Gurman & Bloomberg, 2020) (Investopedia, 2020) (Paysa, s.f.) (SalaryList, McKesson Salary, s.f.) (Salary.com, John H. Hammergen, s.f.) (Minemyer, 2019) (Salary.com, CVS Health Corp, s.f.) (Kelly, 2020) (PayScale.com, s.f.) (News, AmerisourceBergen CEO Steven Collis' 2019 pay slips 2% to $11.3M, 2020) (SalaryList, Amerisourcebergen Salary, s.f.)

Table 3 - Walmart

WALMART						
	NET INCOME ($M)	**% change**	**AVG CEO PAY**	**% change**	**Nº OF EMPLOYEES**	**% change**
2008	$ 12.731,00	-	$ 11.127.000,00	-	2.100.000	-
2009	$ 13.381,00	5,11%	$ 15.452.000,00	38,87%	2.100.000	0,00%
2010	$ 14.370,00	7,39%	$ 13.647.000,00	-11,68%	2.100.000	0,00%
2011	$ 16.389,00	14,05%	$ 10.423.000,00	-23,62%	2.100.000	0,00%
2012	$ 15.699,00	-4,21%	$ 10.265.000,00	-1,52%	2.200.000	4,76%
2013	$ 16.999,00	8,28%	$ 11.466.000,00	11,70%	2.000.000	-9,09%
2014	$ 16.022,00	-5,75%	$ 13.444.000,00	17,25%	2.200.000	10,00%
2015	$ 16.363,00	2,13%	$ 12.760.000,00	-5,09%	2.200.000	0,00%
2016	$ 14.694,00	-10,20%	$ 10.507.000,00	-17,66%	2.300.000	4,55%
2017	$ 13.643,00	-7,15%	$ 59.741.000,00	468,58%	2.300.000	0,00%
2018	$ 9.862,00	-27,71%	$ 13.485.000,00	-77,43%	2.300.000	0,00%
2019	$ 6.679,00	-32,28%	$ 13.674.000,00	1,40%	2.200.000	-4,35%

Own elaboration, information from: (Macrotrends, Walmart Net Income 2006-2020 | WMT, s.f.) (Macrotrends, Walmart: Number of Employees 2006-2020 | WMT, s.f.) (ExecPay, Wal-Mart Stores, s.f.)

Table 4 – Exxon Mobil

EXXON MOBIL						
	NET INCOME ($M)	**% CHANGE**	**AVG CEO PAY**	**% CHANGE**	**Nº OF EMPLOYEES**	**% CHANGE**
2008	$ 45.220,00	-	$ 10.212.091,00	-	79.900	-
2009	$ 19.280,00	-57,36%	$ 8.530.165,00	-16,47%	80.700	1,00%
2010	$ 30.460,00	57,99%	$ 14.229.609,00	66,82%	83.600	3,59%
2011	$ 41.060,00	34,80%	$ 24.229.609,00	70,28%	82.100	-1,79%
2012	$ 44.880,00	9,30%	$ 15.561.163,00	-35,78%	76.900	-6,33%
2013	$ 32.580,00	-27,41%	$ 15.768.829,00	1,33%	75.000	-2,47%
2014	$ 32.520,00	-0,18%	$ 18.253.170,00	15,75%	75.300	0,40%
2015	$ 16.150,00	-50,34%	$ 15.559.551,00	-14,76%	73.500	-2,39%
2016	$ 7.840,00	-51,46%	$ 14.518.590,00	-6,69%	71.100	-3,27%
2017	$ 19.710,00	151,40%	$ 17.500.000,00	20,54%	69.600	-2,11%
2018	$ 20.840,00	5,73%	$ 15.800.290,00	-9,71%	71.000	2,01%
2019	$ 14.340,00	-31,19%	-	-	74.900	5,49%

Own elaboration, information from: (Macrotrends, Exxon Net Income 2006-2019 | XOM, s.f.) (Macrotrends, Exxon: Number of Employees 2006-2019 | XOM, s.f.) (Corporation, 2015) (ExxonMobil, 2017) (Scheyder, Nomiyama, & Reese, 2018)

Table 5 - Apple

APPLE								
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	6.119,00	-	$	12.187.000,00	-	35.100	-
2009	$	8.235,00	34,58%	$	3.207.000,00	-73,69%	36.800	4,84%
2010	$	14.013,00	70,16%	$	29.934.000,00	833,40%	49.400	34,24%
2011	$	25.922,00	84,99%	$	62.225.000,00	107,87%	63.300	28,14%
2012	$	41.733,00	60,99%	$	58.896.000,00	-5,35%	76.100	20,22%
2013	$	37.037,00	-11,25%	$	2.958.000,00	-94,98%	84.400	10,91%
2014	$	39.510,00	6,68%	$	24.329.000,00	722,48%	97.000	14,93%
2015	$	53.394,00	35,14%	$	23.248.000,00	-4,44%	110.000	13,40%
2016	$	45.687,00	-14,43%	$	20.093.000,00	-13,57%	116.000	5,45%
2017	$	48.351,00	5,83%	$	22.102.000,00	10,00%	123.000	6,03%
2018	$	59.531,00	23,12%	$	24.221.000,00	9,59%	132.000	7,32%
2019	$	55.256,00	-7,18%	$	21.166.000,00	-12,61%	137.000	3,79%

Own elaboration, information from: (Macrotrends, Apple Net Income 2006-2019 | AAPL, s.f.) (Macrotrends, Apple: Number of Employees 2006-2019 | AAPL, s.f.) (Surran, 2020) (Moscaritolo, 2013) (Byford, 2012) (Hughes, 2011) (ExecPay, Apple Compensation History, s.f.)

Table 6 – Amazon.com

AMAZON.COM								
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	645,00	-	$	4.667.000,00	-	20.700	-
2009	$	902,00	39,84%	$	565.000,00	-87,89%	24.300	17,39%
2010	$	1.152,00	27,72%	$	5.480.000,00	869,91%	33.700	38,68%
2011	$	631,00	-45,23%	$	428.000,00	-92,19%	56.200	66,77%
2012	$	-39,00	-106,18%	$	10.481.000,00	2348,83%	88.400	57,30%
2013	$	274,00	-802,56%	$	481.000,00	-95,41%	117.300	32,69%
2014	$	-241,00	-187,96%	$	6.481.000,00	1247,40%	154.100	31,37%
2015	$	596,00	-347,30%	$	1.417.000,00	-78,14%	230.800	49,77%
2016	$	2.371,00	297,82%	$	20.421.000,00	1341,14%	341.400	47,92%
2017	$	3.033,00	27,92%	$	481.000,00	-97,64%	566.000	65,79%
2018	$	10.073,00	232,11%	$	11.509.000,00	2292,72%	647.500	14,40%
2019	$	11.588,00	15,04%		-	-	798.000	23,24%

Own elaboration, information from: (Macrotrends, Amazon Net Income 2006-2019 | AMZN, s.f.) (Macrotrends, Amazon: Number of Employees 2006-2019 | AMZN , s.f.) (Metz, Amazon CEO Bezos' compensation unchanged in 2008, 2009) (Metz & Press, Amazon CEO Jeff Bezos received $1.8M in 2009 pay, 2010) (ExecPay, Amazon.com Compensation History, s.f.)

Table 7 - McKesson

MCKESSON								
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	990,00	-	$	15.241.000,00	-	32.900	-
2009	$	823,00	-16,87%	$	15.504.000,00	1,73%	32.500	-1,22%
2010	$	1.263,00	53,46%	$	21.162.000,00	36,49%	32.500	0,00%
2011	$	1.202,00	-4,83%	$	18.190.000,00	-14,04%	36.400	12,00%
2012	$	1.403,00	16,72%	$	16.168.000,00	-11,12%	37.700	3,57%
2013	$	1.338,00	-4,63%	$	20.179.000,00	24,81%	43.500	15,38%
2014	$	1.263,00	-5,61%	$	10.595.000,00	-47,49%	42.800	-1,61%
2015	$	1.476,00	16,86%	$	11.067.000,00	4,45%	70.400	64,49%
2016	$	2.258,00	52,98%	$	10.580.000,00	-4,40%	68.400	-2,84%
2017	$	5.070,00	124,53%	$	10.697.000,00	1,11%	78.000	14,04%
2018	$	67,00	-98,68%	$	5.779.000,00	-45,98%	78.000	0,00%
2019	$	34,00	-49,25%	$	11.263.000,00	94,90%	80.000	2,56%

Own elaboration, information from: (Macrotrends, McKesson Net Income 2006-2019 | MCK, s.f.) (Macrotrends, McKesson: Number of Employees 2006-2019 | MCK , s.f.) (News, McKesson CEO John Hammergren's 2019 pay slips 4% to $17.4M, 2019)

Table 8 – CVS Health

CVS HEALTH								
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	3.198,00	-		-	-	305.000	-
2009	$	3.696,00	15,57%		-	-	211.000	-30,82%
2010	$	3.427,00	-7,28%		-	-	201.000	-4,74%
2011	$	3.462,00	1,02%		-	-	202.000	0,50%
2012	$	3.864,00	11,61%	$	11.761.000,00	-	203.000	0,50%
2013	$	4.592,00	18,84%	$	16.000.000,00	36,04%	208.000	2,46%
2014	$	4.644,00	1,13%	$	13.230.000,00	-17,31%	217.800	4,71%
2015	$	5.237,00	12,77%	$	10.363.000,00	-21,67%	243.000	11,57%
2016	$	5.317,00	1,53%	$	8.365.000,00	-19,28%	250.000	2,88%
2017	$	6.622,00	24,54%	$	6.321.000,00	-24,44%	246.000	-1,60%
2018	$	-594,00	-108,97%	$	14.553.000,00	130,23%	295.000	19,92%
2019	$	6.634,00	1216,84%	$	20.306.000,00	39,53%	290.000	-1,69%

Own elaboration, information from: (Macrotrends, CVS Health Net Income 2006-2019 | CVS , s.f.) (Macrotrends, CVS Health: Number of Employees 2006-2019 | CVS , s.f.) (News, CVS Health CEO Larry Merlo's 2018 pay jumps 79% to $21.9M, 2019)

Table 9 – AT&T

AT&T								
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	-2.625,00	-	$	6.494.000,00	-	301.000	-
2009	$	12.138,00	562,40%		-	-	281.000	-6,64%
2010	$	19.864,00	63,65%	$	13.391.000,00	-	265.410	-5,55%
2011	$	3.944,00	-80,14%	$	11.212.000,00	-16,27%	256.000	-3,55%
2012	$	7.264,00	84,18%	$	14.102.000,00	25,78%	242.000	-5,47%
2013	$	18.418,00	153,55%	$	10.379.000,00	-26,40%	243.000	0,41%
2014	$	6.442,00	-65,02%	$	12.403.000,00	19,50%	253.000	4,12%
2015	$	13.345,00	107,16%	$	13.376.000,00	7,84%	281.000	11,07%
2016	$	12.976,00	-2,77%	$	14.898.000,00	11,38%	268.000	-4,63%
2017	$	29.450,00	126,96%	$	14.591.000,00	-2,06%	252.000	-5,97%
2018	$	12.370,00	-58,00%	$	17.684.000,00	21,20%	268.000	6,35%
2019	$	13.900,00	12,37%	$	18.083.000,00	2,26%	246.000	-8,21%

Own elaboration, information from: (Macrotrends, AT&T Net Income 2006-2019 | T , s.f.) (Macrotrends, AT&T: Number of Employees 2006-2019 | T, s.f.) (News, AT&T CEO Randall Stephenson's 2019 pay rises 10% to $32.0M, 2020)

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Table 10 - AmerisourceBergen

AMERISOURCEBERGEN									
	NET INCOME ($M)		% CHANGE	AVG CEO PAY		% CHANGE	Nº OF EMPLOYEES	% CHANGE
2008	$	251,00	-	$	2.404.000,00	-	10.900	-
2009	$	503,00	100,40%	$	2.791.000,00	16,10%	10.300	-5,50%
2010	$	637,00	26,64%	$	3.400.000,00	21,82%	10.000	-2,91%
2011	$	707,00	10,99%	$	2.724.000,00	-19,88%	10.300	3,00%
2012	$	719,00	1,70%	$	2.735.000,00	0,40%	14.500	40,78%
2013	$	434,00	-39,64%	$	3.967.000,00	45,05%	13.000	-10,34%
2014	$	274,00	-36,87%	$	3.771.000,00	-4,94%	14.000	7,69%
2015	$	-138,00	-150,36%	$	4.964.000,00	31,64%	17.500	25,00%
2016	$	1.428,00	1134,78%	$	4.660.000,00	-6,12%	19.000	8,57%
2017	$	364,00	-74,51%	$	4.458.000,00	-4,33%	20.000	5,26%
2018	$	1.658,00	355,49%	$	5.929.000,00	33,00%	21.000	5,00%
2019	$	855,00	-48,43%	$	4.437.000,00	-25,16%	22.000	4,76%

Own elaboration, information from: (Macrotrends, AmerisourceBergen Net Income 2006-2019 | ABC, s.f.) (Macrotrends, AmerisourceBergen: Number of Employees 2006-2019 | ABC , s.f.) (News, AmerisourceBergen CEO Steven Collis' 2019 pay slips 2% to $11.3M, 2020) (ExecPay, AmerisourceBergen Compensation History, s.f.)